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Internal audit and oversight

Internal audit and oversight activities

Report of the Administrator

Summary

The present report is submitted pursuant to the arrangements agreed upon by the Executive Board. The report provides details of internal audit and oversight services provided by the UNDP Office of Audit and Performance Review for the year ended 31 December 2000.

A recommendation for Executive Board action is contained in chapter VII.

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Introduction

1. The Administrator is pleased to provide the Executive Board with the fifth annual report on internal audit and oversight services provided by the UNDP Office of Audit and Performance Review (OAPR) for the year ended 31 December 2000.

2. In addition to those provided to UNDP, OAPR also provides internal audit and oversight services to the United Nations Office for Project Services (UNOPS) and to the United Nations Population Fund (UNFPA). The sections of the report relating to the organization and resources apply to all three organizations. However, detailed discussions of the internal audit and oversight activities carried out on behalf of UNOPS and UNFPA are included as separate reports, which are being submitted to the Executive Board at its present session by the Executive Director, UNOPS (DP/2001/15) and the Executive Director, UNFPA (DP/FPA/2001/8).

I. Developments in the UNDP oversight and accountability frameworks

3. Oversight and the functioning of the accountability framework have been strengthened recently. Key initiatives and measures, and the OAPR role in them, are briefly described below.

Oversight Group

4. As reported last year, a new mechanism, referred to as the Oversight Group, was introduced in the Administrator's Business Plan's to maximize and coordinate the distinctive oversight roles of the Operations Support Group (OSG) and the Evaluation Office with the role of OAPR. This will strengthen the links between the various oversight tools outside OAPR, including country reviews, the Balanced Scorecard, and evaluations, with the OAPR tools of audit, management reviews, control self-assessment (CSA) workshops, and investigations.

Management Review and Oversight Committee

5. The Management Review and Oversight Committee (MROC) was established to provide the Administrator with assurance that the UNDP accountability framework is operating effectively. In support of this goal, MROC reviews UNDP oversight strategies and policies, including audit plans, country review plans, evaluation plans, and the results of these oversight activities. Whereas the Oversight Group functions at the operational level, MROC operates at a strategic level, developing, implementing and monitoring plans for oversight activities. In 2000, new members were identified and revised terms of reference were approved. The revised membership includes the Under-Secretary-General, Office of Internal Oversight Services (OIOS), the Associate Administrator, the Assistant Administrator and Director, Bureau of Management, the Director, Office of Legal and Procurement Support, the heads of the Oversight Group, and representatives of the regional bureaux. The reconstituted Committee met on 15 September 2000 for the first time.

Improvements in the justice system

6. UNDP has undertaken a review of its internal justice system to improve management and procedural aspects of the system. The objective is to ensure that disciplinary cases are treated in the most fair, transparent and efficient manner, considering the rights and obligations of both staff and the organization. The report of a team of independent consultants engaged to undertake the review was received at the end of March 2001, and work is under way, in consultation with selected units, to adapt and implement the recommendations of the consultants as appropriate.

II. OAPR: organization and resources

7. At headquarters, OAPR is organized into the Office of the Director and four sections: Internal Audit Section; Management Review and Analysis Section; UNFPA Audit Section; and UNOPS Audit Section. In addition, OAPR has three regional audit service centres (RASCs), in Malaysia, Panama and Zimbabwe. As at 31 December 2000, OAPR had 44 authorized posts (see table 1). Annex I contains details of staffing activities during the year.

Table 1
Authorized posts as of 31 December 2000

	Total	*Director*	*Chiefs*	*Auditors*	*Audit Assistants*	*Support*
Office of the Director	3	1				2
Internal Audit Section	9		1	5	2	1
Management Review and Analysis Section	5		1	2	2	
Audit Centre — Malaysia	4		1	2		1
Audit Centre — Panama	4		1	2		1
Audit Centre — Zimbabwe	6		1	3	1	1
Subtotal	**31**	**1**	**5**	**14**	**5**	**6**
UNFPA Audit Section	6		1	3		2
UNOPS Audit Section	7		1	4	1	1
Total	**44**	**1**	**7**	**21**	**6**	**9**

III. OAPR strategic initiatives

8. In 2000, OAPR formulated strategies to improve audit effectiveness and enhance client service, some resulting from the recommendations of the Board of Auditors which are detailed in document DP/2001/7. The most important of these are briefly summarized below.

9. The report for 2000 briefly described the CSA process, which was initiated at the end of 1998. At the end of 2000, an informal assessment of the process was carried out, including consultations with clients. On the basis of this assessment, OAPR concluded that the CSA was useful in improving communication and in highlighting the key issues that prevent offices from achieving their objectives. On the other hand, the assessment revealed that strategic changes in approach would achieve a greater impact. Therefore, effective 2001, the following changes are envisaged: (a) more emphasis will be placed on following up action plans prepared by offices; (b) senior management will be provided with regular analyses of results of CSA workshops; (c) CSA workshops will be targeted to (i) resident representatives and managers taking up new assignments, in order to help them quickly to identify key issues facing their offices, and (ii) selected country offices undergoing the re-profiling exercise. Workshops will continue to be offered on a voluntary basis, up to a limit of 30 workshops.

10. A key initiative, introduced near the end of 1999, was the introduction of the Comprehensive Audit and Recommendation Database System (CARDS), a web-based system for tracking and monitoring audit reports and recommendations. OAPR has instructed country offices to use CARDS to update the implementation status of recommendations, starting with reports issued in 2000. Ten offices of those audited in 2000 have so far complied. The use of CARDS is expected to gain momentum in 2001 because recommendation implementation rates from CARDS will be published in the Balanced Scorecard.

11. Other initiatives started in 2000 and currently under way include:

(a) Developing a system to identify the full costs of each OAPR output;

(b) Creating electronic permanent files to improve audit planning;

(c) Exploring ways to use the data generated by the newly introduced country office software package, referred to as the County Office Suite, to highlight problems and enhance audit planning. In 2000, a specialized tool was developed by OAPR staff to analyse country office accounting data in advance of an audit;

(d) Developing a programme to audit results-based management in 2001.

IV. National execution audit strategy

12. In its resolution 55/220 of 23 December 2000, the General Assembly deferred approval of the UNDP

financial statements for the period ended 31 December 1999, pending certification by the Board of Auditors that satisfactory progress was being made towards removing the reasons for the qualified opinion. The major component of the qualification was the lack of audit certificates covering the national execution expenditures reported in the financial statements. To address this problem, OAPR and the Bureau of Management collaborated in late 2000 on the development of an action plan, briefly described in document DP/2001/CRP.5. On 8 March 2001, the Board of Auditors formally advised UNDP that, in principle, the plan provided an adequate basis for improving the extent to which national execution expenditures will be covered by audit certificates. On this basis, UNDP anticipates that the General Assembly will approve the financial statements at its fifty-fifth session.

13. A key aspect of the UNDP plan was to advise country offices that the level of audit coverage must be increased effective 2000 and that, where possible, additional audit reports should be retroactively obtained for 1998-1999. Country offices were also provided with options for accelerating the submission of audit reports, which for some time have been submitted well after the deadlines.

14. Almost all country offices have submitted audit plans in accordance with the new instructions and have advised that they aim to meet the 30 April deadline for submission of audit reports. However, a key issue remains unresolved: the reluctance of certain Governments to undertake UNDP audits in addition to those required by international financial institutions (IFIs); the implication is that UNDP will not receive audit reports in time to meet the financial statement deadlines set by the General Assembly. For the year 2000, OAPR has agreed with certain country offices that it will accept, on an exceptional basis, audit reports produced for IFIs. For the year 2001, which is the second year of the biennium, if the completion of the audit reports for the IFIs cannot be accelerated, Governments will be requested to conduct separate UNDP audits to ensure compliance with the General Assembly deadline. This will impose additional financial and time burdens on personnel from Governments, country offices and projects.

15. As reported in document DP/2001/CRP.5, one of the strategies to achieve a higher level of audit coverage has been to encourage government counterparts to use local private audit firms where there is insufficient or limited capacity in the office of the national Auditor General to meet the audit deadline. While many Governments have been receptive, some Governments and country offices have complained that this approach will be costly and will reduce the resources otherwise available to country programmes. OAPR routinely gathers information on the cost of national execution audits and will assess the financial impact of the increased audit coverage.

V. Partnerships with United Nations system oversight offices

16. OAPR coordinates its activities with members of the larger United Nations oversight system, including the Board of Audit, the Joint Inspection Unit (JIU), the Office of Internal Oversight Services (OIOS), and the internal audit offices of United Nations organizations. Ongoing activities include the coordination of audit activities with the Board of Audit and cooperation with OIOS on investigative activities. Furthermore, OAPR routinely participates in the annual meetings of representatives of internal audit services of United Nations organizations and multilateral financial institutions. Key topics discussed in last year's meeting included verification visits by third parties and the framework for inter-agency cooperation in the audit of the oil-for-food programme for Iraq.

17. In 2000, examples of cooperation include the following: (a) inviting the UNESCO Office of Internal Audit to participate in a country office audit; (b) consulting with OIOS on the terms of reference for the audit of projects in northern Iraq; (c) meeting with JIU inspectors to discuss investigative capacity in the United Nations system; (d) providing OIOS with information on UNDP oversight activities as input to their review of United Nations system oversight. There will be two collaborative activities with OIOS during 2001: a joint audit of travel is under way and the coordination of an OIOS audit of the Integrated Management Information System (IMIS) with a similar OAPR review will take place later in the year.

VI. Internal audit and related services

A. General

18. Table 2 summarizes OAPR output for 2000.

Table 2
Internal audit and oversight services provided in 2000

	In process as of 01/01/00	*Projects initiated*	*Reports issued*	*In process as of 31/12/00*
UNDP — Internal audits/reviews of functions	-	3	1	2
UNDP — Internal audits/reviews of projects	1	1	2	-
UNDP — Internal audits/reviews of country offices	7	42	43	6
Subtotal: UNDP audits/review	**8**	**46**	**46**	**8**
UNDP — Control self-assessment sessions	-	18	18	-
UNDP — Assessment of national execution audit reports	-	1 401	1 401	-
UNFPA — Internal audits/reviews	14	26	27	13
UNOPS — Internal audits/reviews	9	31	34	6
Investigation cases	33	20	32	21

19. An analysis of the 2000 outputs compared to those of the prior year shows the following. The number of UNDP internal audit reports declined significantly, from 76 in 1999 to 46 in 2000. This decline is attributed to two factors: (a) extensive recruitment of audit resources on contracts for activities of limited duration (ALD) in 2000 and (b) the shift from compliance audits to management audits, which are much broader in scope. The number of CSA sessions also declined, from 33 in 1999 to 18 in 2000. As indicated in paragraph 9, OAPR is revising its strategy and, accordingly, towards the latter part of 2000 conducted workshops only on an ad hoc basis. The number of national execution audit reports increased 14 per cent, from 1,231 in 1999 to 1,401 in 2000, owing to a corresponding increase in the number of national execution projects. The number of investigation cases declined slightly, from 25 new cases in 1999 to 20 in 2000.

B. Internal audits of functions

20. In 2000, OAPR conducted an audit of global and regional projects and followed up the principal findings of audits completed in 1999. The global and regional project audit report contained 19 recommendations, all of which the Oversight Group is following up on at the corporate level. Brief summaries of the findings of the report and the follow-up of reports issued in 1999 are presented below.

Audit of global and regional projects

21. At the time of the audit, there were approximately 400 projects with combined project budgets totalling $542 million. The objective of the audit was to review the oversight, control and monitoring mechanisms of the projects, to highlight observed weaknesses and to make recommendations where needed. The audit examined the use of global and regional programme resources but did not examine the impact or effectiveness of the activities, except as reported in various evaluation reports. Projects raising policy issues, such as non-governmental organization (NGO) execution were selected for a more in-depth review.

22. Overall, OAPR found that resources have generally been used for the purposes described in the regional cooperation frameworks and the global cooperation framework. Nonetheless, owing to weak management oversight, as well as a shortage of funds available for new initiatives, they have been used for other purposes in some instances. For example, the regional programme was used to provide start-up funding for subregional resource facility (SURF) activities, and to hire two resource mobilization advisers. As a result, OAPR recommended strengthening UNDP policy by clarifying the types of activities that can be funded from global and regional resources and the mechanism to hold managers accountable for non-compliance.

23. For many of the projects reviewed, UNDP staff were involved in project management — ranging from

providing substantive guidance to the executing agency to near complete responsibility for project implementation. For the most part, the division of duties between the executing agency and UNDP was that the executing agency was responsible for administrative backstopping and UNDP for substantive project management.

24. While this division of duties may well contribute to the achievement of better programme results, an assessment in this respect was outside the scope of the audit. Rather, OAPR highlighted how UNDP involvement in project management activities contributes to certain risks: (a) a blurring of accountability for project-related decisions arising from unclear responsibilities of UNDP vis-à-vis the executing agency; (b) overpayment of support costs with some exceptions, UNDP continues to pay UNOPS an administrative fee of 10 per cent of project expenditures even when UNDP assumes broad project management responsibilities; (c) poor expenditure control since UNDP lacks the corporate systems to support project management; (d) impaired ability of UNDP to assume an independent, monitoring role, given the high degree of involvement in project management activities.

25. OAPR also noted that owing to the focus of UNDP policies and procedures on country programmes, they are in some aspects that need more attention with respect to global and regional programmes. For example, the Programming Manual does not provide guidance on the amount of resources that can be used for preparing and reviewing the global and regional frameworks. In addition, the Manual does not provide sufficient guidance on the selection of NGOs as implementing partners, an issue which is applicable to country projects as well as global and regional projects.

26. UNDP is actively working to strengthen policy to minimize the risks described in paragraph 25, and also to ensure that the remaining issues identified by the audit as well as the recent mid-term reviews of the global and regional programmes are satisfactorily addressed. Key follow-up measures include the following: (a) strengthening project approval by requiring a more structured and rigorous appraisal process; (b) enhancing the independence and consistency of mid-term reviews by shifting responsibility for management to the Evaluation Office; (c) undertaking comprehensive project reviews to monitor compliance with the Programming Manual. For several of the regional projects reviewed in depth by OAPR, the Associate Administrator followed up directly with the regional bureau concerned to ensure that the audit recommendations were adequately and promptly addressed.

Management of human resources

27. Two key issues of the audit, issued in 1999, were insufficient headquarters oversight of country office staff and concerns over the integrity of the Integrated Management Information System (IMIS) human resources data. Regarding the former, improvements are beginning to take effect through the recent roll-out of the human resource management module (part of the Country Office 2001 Suite), which is intended to collect personnel data in a consistent format and on a timely basis. About 80 offices reported their year-end 2000 local staffing data using this module. More offices will use the software and reporting formats once software refinements are made in the third quarter of 2001 to improve ease of use. Regarding the latter, the task of cleaning up the data continues.

Oversight of trust funds

28. In 1999, OAPR audited the oversight of trust funds because of the unique financial risks presented by trust funds as compared to those presented by UNDP regular (i.e. core) resources. Most of the recommendations were satisfactorily addressed in 2000, in particular the standardization of the financial reporting formats and streamlining of the reporting procedures to donors. Ongoing efforts include the incorporation of both core and non-core resources into the Financial Information Management System (FIMS) and the closure of inactive trust funds. The key remaining issue is the absence of a corporate-wide policy with respect to substantive reporting to donors. The Bureau of Resources and Strategic Partnerships is addressing this as a high priority in 2001.

C. Internal audit of direct execution projects in northern Iraq

29. In September 2000, OAPR contracted a public accounting firm to conduct an audit of the Electricity Network Rehabilitation Programme (ENRP), located in northern Iraq, funded by the oil-for-food programme for Iraq. Effective July 1999, responsibility for

execution was formally transferred from the Department for Economic and Social Affairs of the United Nations Secretariat to UNDP. The programme is unusually complex for a number of reasons, including: UNDP is functioning in the role of a technical implementing agency; the local counterparts are not recognized as legal entities by the United Nations; the programme is highly technical in nature and electricity infrastructure is not a UNDP mainstream activity; and ENRP has been undergoing tremendous growth — from July 1999 to July 2000 the budget grew by $280 million. For these reasons and on account of the political visibility of the programme, ENRP activities have been subjected to a high level of scrutiny and review. In addition to the September 2000 audit, OAPR conducted a management review in late 1999 and an evaluation of the procurement division was conducted in late 2000. In consultation with the Regional Bureau for Arab States and OIOS, OAPR will be arranging for annual financial and management audits.

30. Despite the difficult circumstances, ENRP management advises that remarkable results have been achieved in a relatively short period. While OAPR does not dispute this view, key risks were identified in the areas of personnel management, delegation of authorities with respect to procurement activities, management of non-expendable equipment, advertisement of procurement contracts, and information systems. Management has addressed the key issues in a very responsive manner. Seventy-four per cent of the recommendations made in the management review, conducted in late 1999, had been implemented by September 2000. OAPR is following up the remaining issues.

D. Internal audits and reviews of country offices

31. During 2000, OAPR provided internal audit services to 39 country offices. A total of 39 internal audit reports (23 full scope and 16 limited scope) and 4 special audit reports were issued. A public accounting firm contracted by OAPR conducted the limited-scope compliance audits. The 39 internal audit reports contained 1,542 recommendations, of which 1,453 (94 per cent) were accepted by auditees and have been or are being implemented. The remaining 89 recommendations (6 per cent) are still being pursued.

32. For each office, OAPR assessed the adequacy of internal controls according to a rating system. Table 3 shows the breakdown by region and by overall rating of the 39 internal audit reports issued in 2000 (see annex II for an explanation of the standard audit ratings used by OAPR).

33. The four special audit reports do not have ratings. Special audits are conducted when OAPR is advised of an allegation of misconduct or when, during the course of an internal audit, OAPR uncovers evidence of possible misconduct. If warranted, special audit reports are forwarded to the Office of Legal and Procurement Support for consideration of disciplinary measures. In 2000, seriously deficient audits gave rise to three special audits, two in the Arab States region and one, not yet complete, in the Latin America and Caribbean region. The two remaining special audits completed in 2000 arose from specific allegations: one concerning fraudulent overtime payments and the other concerning the improper dismissal of a contractor.

34. The recurring issues identified in the internal audit reports are listed below. Some of these issues are not applicable to the limited-scope audits because the subject area is outside the scope of the audit.

Government contributions

35. With respect to the collection of cost-sharing and voluntary contributions, audits in 10 offices observed collection delays and weak follow-up by the country offices. A key reason is that country offices do not have accounting tools to support them in their monitoring of contributions. While responsibility for resource mobilization has largely been decentralized to the country offices, headquarters remains officially responsible for receiving and recording contributions. This has contributed to significant delays between the receipt of contributions and the identification and recording of the contributions in UNDP accounting records. To address this problem, many country offices have taken the initiative to establish parallel systems for recording contributions and to advise headquarters of expected receipts to facilitate their identification and recording. In addition, the Bureau of Management (BOM) has introduced new procedures under which US dollar cost-sharing/trust fund contributions may be paid by donors directly into specific bank accounts of country offices. Country offices are immediately advised of receipt details via direct electronic linkages to these bank accounts. Some 30 country offices have initiated this programme with considerable success. These procedures will be extended to remaining country offices throughout 2001.

Table 3
Internal audit reports issued in 2000, by region and rating

	S	MD	D	SD	Total
Asia and the Pacific — limited scope audits	5	2	2	-	9
Asia and the Pacific — full scope audits	1	1			2
Arab States — limited scope audits	2	4	-	1	7
Arab States — full scope audits	3	-	-	1	4
Latin America and the Caribbean — full scope audits	-	2	1	2	5
Europe and the CIS — full scope audits	1	3	-	-	4
Africa — full scope audits	1	7			8
Total	13	19	3	4	39

S = Satisfactory, MD = Marginally deficient, D = Deficient, SD = Seriously deficient

36. With respect to the collection of local office contributions and voluntary contributions from programme countries, some country offices have advised that, owing to extenuating circumstances, Governments have been unable to meet their obligations but that they expect the situation to improve in the future. With respect to cost-sharing, country offices are increasingly encountering donors unwilling to pay 100 per cent up front. An office in a net contributor country (NCC) advised that the Government routinely withheld a percentage of contributions pending satisfactory completion of the project.

Programme matters: country office support to national execution

37. The Programming Manual allows for the provision of support services when a national institution lacks the managerial capacity for certain tasks. The Manual also places restrictions on this: there must be an agreed plan for phasing out such assistance and the impact of the arrangements on capacity-building and sustainability within national institutions must be systematically reviewed during monitoring and evaluation.

38. Overall, a high level of support, particularly in the form of direct payments by the country office, was observed. The offices concerned advised OAPR that they ensured national ownership of programme results by working closely with Governments on substantive management. An assessment of whether the support had had a negative impact on capacity-building and sustainability, however, was outside the scope of the audits. Reasons given by the offices for providing support services included: (a) the provision of support services was necessary in order to ensure financial accountability — for example, some country offices suspended advances to the Government because the Government had failed to comply with UNDP reporting requirements; (b) local legislation presented obstacles — for example, in some countries local law prevents government officials from opening bank accounts or signing contracts. In almost all cases where the country office provided support services, the offices advised that the services would not continue on a long-term basis although formal exit strategies had not been prepared.

39. While recognizing the necessity of providing support to national execution in certain circumstances, OAPR noted four key risk areas, as follows: (a) the risk of increased legal liability arising from the provision of support services; (b) the risk that country offices will use management support units, funded from programme resources, to support country office activities as well as project activities; (c) the risk that pressures will be put on country offices to circumvent UNDP procurement and recruitment procedures when undertaken on behalf of the Government; and (d) the risk of poor financial control where country offices lack the capacity to undertake project implementation activities. Each of these risks/concerns is described in more detail below.

40. Regarding the first concern, the Programming Manual requires a Letter of Agreement between the

country office and the Government to ensure that the provisions of the Standard Basic Assistance Agreement on liability and privileges and immunities clearly extend to support activities. Six of the offices audited, however, had not entered into such agreements. While it is UNDP policy to assert immunity from national jurisdiction in all cases, including those arising from support service activities, the risk remains that UNDP may be held liable for actions taken. Presently, one country office is the subject of a lawsuit concerning its support activities and another office advised OAPR that local contractors had threatened to sue the office because of the lateness of payments. Three of the six offices intend to pursue formal agreements with the Government, as required by the Programming Manual. However, the remaining three believe this action is not justified given the anticipated difficulty in obtaining government approval and the minimal legal risk. In 2001, BOM will review the level of risk being incurred in the context of support to national execution and consider whether revisions to the Programming Manual are necessary to ensure that the issue is addressed uniformly by country offices.

41. Regarding the second concern, OAPR noted that nine of the offices audited used programme resources to supplement country office operations. This trend has increased in recent years. In many of these offices the problem was attributed to national execution management support units, located in the offices, which performed country office activities in addition to project activities. One solution, supported by UNDP procedures, is to encourage country offices to locate management support units in the government offices. However, there is a parallel risk with this course of action that Governments will use management support units to supplement government operations — an observation reported in one audit report in 2000. In almost all cases where internal audits noted inappropriate use of programme resource, the offices advised that the problem had either been corrected or would be corrected in the context of the re-profiling exercises that will be undertaken in 2001.

42. Regarding the third concern, as described in detail in paragraphs 57-59 below, support to execution places pressures on country offices to undertake rapid recruitment which, at times, is difficult for offices to reconcile with UNDP policies which stress measures to ensure transparency and fairness.

43. Regarding the fourth concern, internal audits noted that country offices have encountered difficulties supporting national execution owing to a lack of corporate project management systems, insufficient procedural guidance and, to some extent, a lack of resources. Corporate systems and procedures have recently been strengthened in this regard. The Programming Manual gives guidance with respect to procedures and, most importantly, the new version of FIMS gives country offices a corporate tool to manage project expenditures. Also, the Inter-Agency Procurement Services Office (IAPSO) has helped to strengthen the technical capacity of country offices to undertake procurement. More is being done to provide procedural guidance, such as the development of a comprehensive procurement manual, which is under way.

44. As indicated in the preceding paragraph, some offices are struggling to provide implementation support in the face of limited financial resources. While the Programming Manual allows for cost recovery of support services by charging the costs to the project, the offices concerned need more support to track the costs of the services properly. This guidance is being provided to offices as part of the roll-out by BOM of the resources strategy table (RST). In 2001, in the context of the re-profiling exercise and the completion of the RSTs, country offices will be assessing the level and cost of support services.

45. These concerns and the lack of a corporate monitoring system for country office support to national execution were explored by the national execution working group, which met at the end of 2000, and will be addressed at a corporate level in 2001. UNDP is working to strengthen controls over the use of programme resources. Specific steps have been taken with respect to global and regional projects, as described in paragraph 26, and will be extended to the country level as appropriate. In addition, the analysis of data from the strategic results framework (SRF) and the results-oriented annual report (ROAR), which documents the results achieved using programme resources, may prove beneficial.

Programme matters: national execution

46. In 2000, internal audits noted improvement in the timely submission of government financial reports. More vigorous follow-up by country offices and revised procedures, issued in late 1998, have

contributed to this improvement. As indicated in paragraph 38, some country offices addressed this problem by moving away from the advance modality. Where problems were noted, the offices concerned advised that they take the deadlines seriously and will continue to follow up via regular meetings with the Government.

47. In eight of the offices audited, the combined delivery reports (CDRs) were not certified by the government counterparts. Several country offices advised that a key contributing factor has been the lateness of the CDRs, produced at headquarters, and the frequency of errors. Effective for the year ending 2000, the production of CDRs has been decentralized to the country offices; this is expected to improve the timeliness and reduce the errors and result in improved compliance with the certification of CDRs.

Programme matters: other issues

48. Executing agencies are expected to maintain a detailed inventory of all non-expendable equipment, to perform an annual physical count and to submit the detailed inventory to UNDP annually. As reported in prior years, executing agencies, primarily Governments, frequently fail to perform this duty; this may result in inadequate control over project inventory and possibly lead to a loss of equipment. In almost all cases, country offices advised that they agree with the importance of obtaining annual inventories and will follow up with Governments more vigorously to ensure inventories are completed. One office advised that certified inventory lists are difficult to obtain and that they must often be prepared with the assistance of the Office.

49. In 2000, internal audits noted fewer instances of late designation of projects as operationally and financially complete. The Programming Manual addresses these problems by requiring resident representatives to close projects if the executing agency fails to do so in a timely manner. As reported last year, BOM prepared a work plan to address this issue and almost all of the long-outstanding projects are now closed. The remaining problems are cost-sharing projects, where there are outstanding donor balances, and trust fund projects. These will be addressed in 2001.

Financial operations

50. As instructed by the UNDP Finance Manual, certain payments must be recorded as advances recoverable locally (ARLs) in the accounting records. The first category includes advances to staff (regular salary advances, special and emergency advances, and travel), and travel advances to non-UNDP staff. The second category, which must be approved in advance by BOM, includes payments made on behalf of United Nations organizations and the petty cash balance. In 2000, OAPR noted a number of problems with ARLs, including long-outstanding advances, excessive granting of emergency advances to staff, incorrect classification, and lack of advance approval by BOM. Regarding the latter problem, country offices set up ARLs in many cases without prior approval because payments need to be made on an urgent basis and because finance staff were not aware of the correct accounting procedures. In one country office, for example, cost-sharing donations were credited to ARLs and expenditures for common services were charged to ARLs, pending reimbursement from United Nations organizations. To address these problems, additional training of finance staff is necessary. Regarding the long-outstanding travel and salary advances, offices generally agreed that they needed to be more vigilant in following up. In 2001, OAPR will work with BOM to determine whether more can be done at headquarters to monitor the ARLs and to assess the existing provisions of the Finance Manual.

51. In the area of cash management, audit observations included incomplete petty cash books, replenishments exceeding limits, custodians not designated in writing and independent cash counts not conducted. In most offices, these observations are not significant because the Finance Manual restricts petty cash balances to $500. In some offices, however, significant cash balances are maintained because local transactions are largely cash-based. Weaknesses in controls over cash contributed to two cash shortages in 2000: one for $6,000 and the other for $7,000. To document the risks on a country-by-country basis better, OAPR, in collaboration with Treasury and a regional bureau, initiated a comprehensive review of cash management in selected country offices. The resulting report will be issued in 2001.

Procurement

52. OAPR continued to note instances of non-compliance with UNDP policies and procedures. A repeated problem was the lack of control over purchase order forms to ensure that the forms were not used for unauthorized purposes. A new procurement module, introduced to country offices in 2000 as part of the Country Office Suite, solves this problem. Two other repeated problems noted by internal audits were: (a) senior country office staff routinely approved purchase orders in the absence of a written delegation of authority from the resident representative and (b) lack of proper segregation of duties in procurement functions. Where these observations were made, country offices advised that corrective action would be taken.

53. Given the increasing levels of procurement being undertaken by country offices in the context of support to executing agencies, OAPR plans to conduct an extensive horizontal audit of procurement in 2001 in order to identify and assess the systemic issues and to propose revisions to policy or procedures, as applicable.

Inventory

54. OAPR noted a lack of documentation and monitoring activities with regard to inventory. In most cases, country offices were familiar with the requirements of the relevant UNDP manuals but, because of limited staff resources, were unable to complete these tasks. Nevertheless, OAPR was advised that in the future, they would try to improve. As reported last year, a related problem was the failure to use the corporate system FOINVENT for inventory control and submission of listings to headquarters, mostly because FOINVENT was out of date and did not function properly. A new inventory module was rolled out in 2000 and used by some 80 offices to submit their year-end listings of inventory to headquarters.

Common services

55. Country offices often share office space and other common costs, such as electricity and telephone, with other United Nations and non-United Nations organizations. However, not all offices have established formal agreements for the sharing of costs, which could lead to future disputes. OAPR has recommended that country offices conclude formal agreements as soon as possible and the offices concerned have advised that this will be done.

Travel

56. A frequent audit observation is that there are delays in receipt of travel claims, resulting in long-standing travel advances and, less frequently, travel before authorization. Country offices advised that the vast majority of the problems related to project travel, particularly when undertaken by non-UNDP staff. OAPR and BOM will consult with each other to determine whether corporate policies can be revised to improve management of project travel.

Employment contracts

57. With respect to special service agreements (SSAs), internal audits continued to note instances of the lack of an appropriate, competitive recruitment process and the retroactive issuance of SSA contracts. The reasons for this lack of compliance tended to fall into one of three categories. First, in the context of support to execution, some offices are of the opinion that the time required to comply with corporate requirements will have a negative impact on results, particularly in crises necessitating rapid recruitment. Second, also in the context of support to execution, some offices believe that the executing agency is accountable for the recruitment process and that UNDP is accountable only for correctly preparing the contract and issuing payments. Third, in the view of at least one country office, corporate policies can be more flexibly applied in the context of NCC countries, as along as activities are undertaken with the full support and agreement of the Government.

58. Exceptions to the usual procedures must be made in crises. However, the risk of abuse will increase if exceptions become too commonplace. In 2001, OAPR will work with BOM to determine proper methods for documenting exceptions in order to strike an appropriate balance between business necessity and the need for transparency in the recruitment process.

59. Another issue, directly related to the above observations, is the ongoing lack of compliance with the duration limits of SSAs. These duration limits must be respected in order to ensure that SSA holders do not become de facto UNDP staff and accordingly entitled to social security and termination benefits. In late

1998, OHR introduced guidelines for two additional modalities: service contracts and contracts for activities of limited duration (ALD). In 2000, OAPR noted that most offices were using the new modalities in order to eliminate the non-compliance problems. Where problems remain, it was generally in the context of support to execution. For example, one office was instructed by the executing agency, a United Nations organization, to extend the contract beyond 11 months. It should also be noted that not all offices understand the rationale for the 11-month limit and, therefore, do not believe that non-compliance presents a risk.

60. With respect to service contracts, OAPR noted instances of non-compliance with UNDP guidelines. Service contracts are intended for hiring local staff to perform specialized services, such as security or cleaning services, or to perform project activities. However, a number of offices, particularly those which used programme resources to fund office operations, used service contract holders to perform regular office duties. The terms and conditions of service contracts are, for the most part, less favourable than those for regular 100 series staff. To address the resulting inequity, some offices inappropriately modified the terms and conditions of service contracts. Where problems were noted, country offices advised that corrective action would be taken in the context of the re-profiling exercise. Effective 2001, with the full implementation of the human resources module, headquarters will be better able to monitor the use of service contracts and take corrective action.

61. The guidelines on the use of service contracts and ALD contracts require that country offices submit annual reports to headquarters in order to maintain accurate and complete corporate-level personnel records. However, these reports are tedious to prepare and, frequently, country offices do not comply. The new human resources module of the Country Office 2001 Suite, rolled out in 2000, is expected to largely eliminate this problem in 2001. For those country offices using the module, sending a copy of the electronic database to headquarters will satisfy the reporting requirement. While the version rolled out in 2000 is not fully functional, some 80 country offices submitted data files to headquarters.

Office automation

62. The Financial Information Management System (FIMS) was officially released to country offices in late 1997. While initial adoption of the tool was slow, by the end of the year virtually all offices are using FIMS to record project budgets and expenditures. Headquarters is much better able to monitor commitments of programme resources and take prompt, corrective action. In addition, effective as of the 2000 reporting period, country offices are using FIMS to produce reports of national execution expenditures, thereby reducing the delays encountered in prior years.

63. In 1999, BOM introduced a new country office accounting system, WINFOAS. Implementation was difficult because of numerous software bugs and lack of sufficient training. In 2000, OAPR noted that the two most significant problems reported by country offices were (a) they could not eliminate duplicate vendors in the vendor file and (b) zero-balance ARLs could not be deleted. BOM has noted that the ARL problem will be addressed in the next version of WINFOAS. The duplicate-vendor problem, on the other hand, requires further analysis as it may be a procedural issue rather than a technical problem. The key remaining issue, also being researched, is that WINFOAS data files are not adequately protected against unauthorized alteration.

E. Analysis of audit reports for national execution projects

64. During the year 2000, OAPR received and reviewed 1,401 project audit reports of national execution expenditures for 1999. These reports covered 113 of the 140 countries with national execution expenditures exceeding $100,000. For each country, a letter was prepared summarizing the results of the audit findings and advising the country office on the actions that need to be taken. In order to highlight problem areas, OAPR also assessed the national execution programme according to two sets of criteria, described in more detail below.

65. The first rating assessed the level of compliance with the national execution audit requirements. Specific criteria included compliance with the deadline for the submission of reports, compliance with the terms of reference for the audit, and the timely submission of an audit plan to OAPR. For the 113 countries assessed, the results were that 55 offices received ratings of satisfactory, 52 of marginally deficient, and six of deficient. The 27 countries that did

not submit audit reports before the end of 2000 were also rated deficient.

66. The second rating assessed the overall management of the national execution programme, based on the findings reported by the auditors. The results were that 55 offices received ratings of satisfactory, 33 of marginally deficient, and 11 of deficient. The national execution programme could not be assessed for 14 of the countries that submitted audit reports because the audit reports did not provide sufficient information to make an assessment. The breakdown by region is given in table 4.

Table 4
Overall management of national execution programme

	S	*MD*	*D*	*Total*
Asia and the Pacific	4	11	3	18
Arab States	6	2	0	8
Latin America and the Caribbean	14	5	2	21
Europe and the Commonwealth of Independent States	19	3	2	24
Africa	12	12	4	28
Total	55	33	11	99

S = Satisfactory, MD = Marginally deficient, D = Deficient

67. In general, the reviews of the audit reports revealed recurring issues in the areas of personnel, procurement, finance, project design and implementation, and inventory. Many of the recurring problems were attributed to a lack of awareness of proper procedures. With respect to the recruitment issues, project management indicated that competitive recruitment was not undertaken in some cases owing to the need to recruit for specialized skills. With respect to procurement, project management indicated that, at times, local conditions or special project-specific requirements prevented them from obtaining a reasonable number of bids. For all countries assessed, OAPR has received or has requested action plans from the respective country offices to address the audit findings.

68. The above audit findings were directed to the appropriate government-designated institution for action. The country office concerned and OAPR are following up to ensure that all findings are proper addressed.

F. Investigation cases

69. In all, there were 53 cases active during 200 covering UNDP (42), UNFPA (7) and UNOPS (4). O these 53 cases, 33 were referred to the Office of Leg and Procurement Support (OLPS) for consideration disciplinary and performance measures, 10 were clos by OAPR as there was no evidence of misconduct a 10 are still being investigated by OAPR or other uni Of the 33 cases referred to OLPS, 8 were concluded performance measures, 14 resulted in disciplina action (dismissal or non-renewal of contract) and are still outstanding.

VII. Executive Board Action

70. The Executive Board may wish to:

1. *Take note* of the report of the Administrat on internal audit and oversight services (DP/2001/13)

2. *Express support* for the continu strengthening of the internal audit and oversig resources of the United Nations Developme Programme.

Annex I

OAPR: Organization and resources

1. The number of UNDP-funded posts declined by three relative to the prior year. This reduction was necessitated by the budget strategy for the biennium 2000-2001, which required UNDP to cut back on administrative expenses, particularly at headquarters. OAPR was able to make the cut by merging the National Execution Audit Section (NEXAS) with the Internal Audit Section, resulting in the abolishment of one P-5 post. Two of the former NEXAS posts were transferred to a new unit, now located in the Bureau for Development Policy (BDP); the remaining two posts were transferred to the Internal Audit Section.

2. The objective of the transfer of two posts from OAPR to BDP was to consolidate the national execution sensitization missions with the BDP function of developing procedures and training materials for national execution. BDP followed up with the establishment of an execution support facility to assist country offices in implementing national execution, direct execution, and NGO programme management systems; to provide training for capacity-building for these modalities; and to help to update and maintain programming procedures. The coordinating activities of the former NEXAS, as they relate to the preparation of the global audit plan and the assessment of audit reports, remain with OAPR and are the responsibility of the merged Internal Audit Section. OAPR has mainstreamed assessments of national execution management into the scope of the management audits of country offices.

3. To strengthen investigative capacity, a vacant P-3 auditor post at headquarters was reclassified as a P-4 investigator post. Recruitment is under way. The chosen candidate will provide investigative services to UNDP, UNFPA and UNOPS.

4. The total number of UNFPA-funded posts increased from four at the end of 1999 to six at the end of 2000. UNFPA approved this increase in order to strengthen the capacity of OAPR to monitor effectively the audits of NEX and NGO projects.

5. The six OAPR posts vacant at the end of 1999 were filled during the year. Of these, four were in the Internal Audit Section, one in the Management Review and Analysis Section and one in the UNFPA Audit Section. Seven posts were vacant at the end of 2000, owing to early retirements, two newly created UNFPA posts and internal transfers of staff. Of these, four are in the UNFPA Audit Section, two in the UNOPS Audit Section and one (the investigator post) in the Management Review and Analysis Section.

6. As reported last year, for the biennium 1998-1999, OAPR entered into contracts with public accounting firms to conduct audits of country offices, supplementing the level of audit coverage provided by regular audit staff. For the biennium 2000-2001, owing to the unsatisfactory performance of the contractors in two regions, Latin America and the Caribbean and Africa, the resources that had been used to secure contracts with firms are instead being used to acquire the services of individuals on contracts for activities of limited duration (ALD). As the experience with contractors in the Asia and the Pacific and the Arab States regions has been satisfactory, the use of contractors will continue there for now.

7. In all, 12 individuals on ALD contracts are being hired to supplement the audit resources of OAPR and will provide audit services to both UNDP and UNFPA.

Seven of the individuals will be located in Regional Audit Service Centres. To achieve cost-savings and enhance client service, two of the individuals will be outposted to the Bratislava Regional Support Centre and three to Côte d'Ivoire. Recruitment has been completed for 10 of the ALDs.

Annex II

Definitions of standard audit ratings used by OAPR

Rating	*Definition*
Good	Those controls, which were tested, have been applied consistently and effectively. Any weakness in the application of controls was minor. Management requires no action.
Satisfactory	Although some weaknesses in the application of control procedures were identified, the weaknesses concerned were not sufficiently critical to compromise the system of internal control.
Marginally deficient	Although the majority of key controls were being applied, the application of certain important controls, lacked consistency or effectiveness. While other controls compensated in part for the weakness(es), timely corrective action is required by management.
Deficient	Certain key controls were not being applied. The weaknesses identified, taken together or individually, significantly impair the overall system of internal control. Prompt corrective action is required by management to improve significantly the application of key controls.
Seriously deficient	Lack of application of internal control procedures was found to be so widespread as to undermine the system of internal control. This failure of the control infrastructure has had, or is likely to have, significant implications for security, integrity or privacy. Urgent attention is required by management to implement effective controls.